

Organization management Case study: Planning function: strategy management

The Ketchup Wars: McDonald's won't serve Heinz anymore¹

By Lydia DePillis

Last week, two iconic American brands parted ways: McDonald's and Heinz, which had supplied red goop to the golden arches for 40 years. The reason? Heinz's new private equity owners had installed Bernardo Hees, formerly CEO of Burger King Worldwide and currently still a board member, as the company's new chief executive. It's not an unprecedented food fight: When PepsiCo owned fast food brands like Taco Bell, other franchises engaged in proxy wars by allying themselves with different soda companies.

Here are a few fascinating facets of the now-ruptured relationship.

1. Heinz and McDonald's have been through this before.

Back in the early 1970s, Heinz supplied most of McDonald's ketchup. But in 1973, a tomato shortage struck, and Heinz prioritized its glass bottle customers over its bulk fast food accounts. McDonald's abruptly terminated their agreement. "From there on after, we've been on the outside looking in," a Heinz executive told the Wall Street Journal in 2006. Indeed: Heinz's investors pressed the company to sell more to McDonald's, before it was purchased by a partnership of Berkshire Hathaway and Burger King's parent company, 3G Enterprises (some analysts predicted that would create problems with the world's biggest fast food chain).

2. Heinz could be hit hardest overseas.

U.S. burger eaters probably won't notice much of a difference, since McDonald's was only using Heinz ketchup in its Minneapolis and Pittsburgh markets; the rest is private label. It will, however, lose out in emerging countries, where McDonald's has 66 percent of its sales, and where Heinz had had more success in working with it. North America makes up only 40 percent of the Heinz company's total sales, and it's looking overseas for more growth in Ketchups & Sauces -- which it estimates is a \$110 billion business -- and being cut out of the McDonald's business could hinder it.

"This category represents the past and future of Heinz and we possess numerous competitive advantages, including rapidly growing businesses in Emerging Markets, upside potential in Developed Markets and our unique, proprietary HeinzSeed capabilities, which deliver superior, great-tasting tomatoes for Heinz® Ketchup & Sauces," reads its 2012 annual report.

3. McDonald's was still a small part of Heinz's business.

McDonald's won't give out numbers for the amount of ketchup it consumes globally, but in 2006, it reportedly used 250 million pounds of the stuff in the U.S., only a small fraction of which came from Heinz. For a rough comparison, today Heinz says it sells 650 million bottles per year worldwide, which works out to 569 million pounds -- not including bulk sales to fast-food restaurants.

4. Ketchup isn't even most of Heinz's business.

The company has grown far beyond its horseradish roots. Ketchups and sauces are the company's largest core category, but not ketchup itself; the company now has licensing agreements with restaurants like T.G.I. Friday's*, owns lines of food like Ore-Ida potatoes, and makes diet foods like Smart Ones. The loss of one ketchup customer isn't going to hurt too badly.

5. The rivals aren't that huge either.

In fact, McDonald's in-house ketchup may be the second biggest one: While Heinz says it did \$5 billion in sales for all ketchups and sauces in 2012 (it doesn't break them out by condiment),

¹ Adopted from <http://www.washingtonpost.com/blogs/wonkblog/wp/2013/10/28/the-ketchup-wars-mcdonalds-wont-serve-heinz-anymore/>

ConAgra's Hunt ketchup only did \$69.5 million between May 2011 and May 2012, and has 14.6 percent market share.

Question to the case study:

1. Name the factors of internal environment of both McDonald's and Heinz
2. Name factors of both external environment for both enterprises.
3. What would you do if you were MacDonald's CEO in this case?